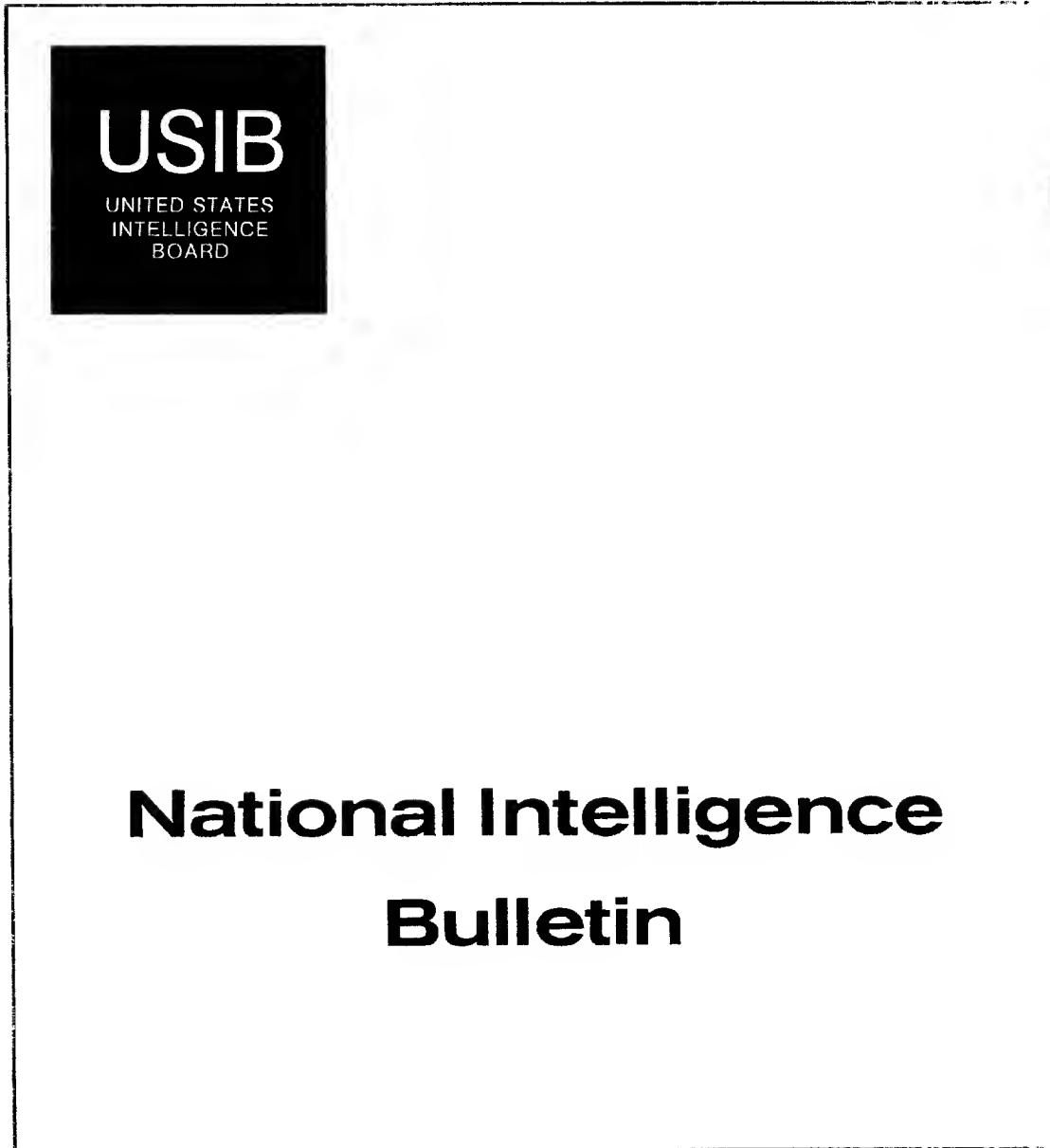


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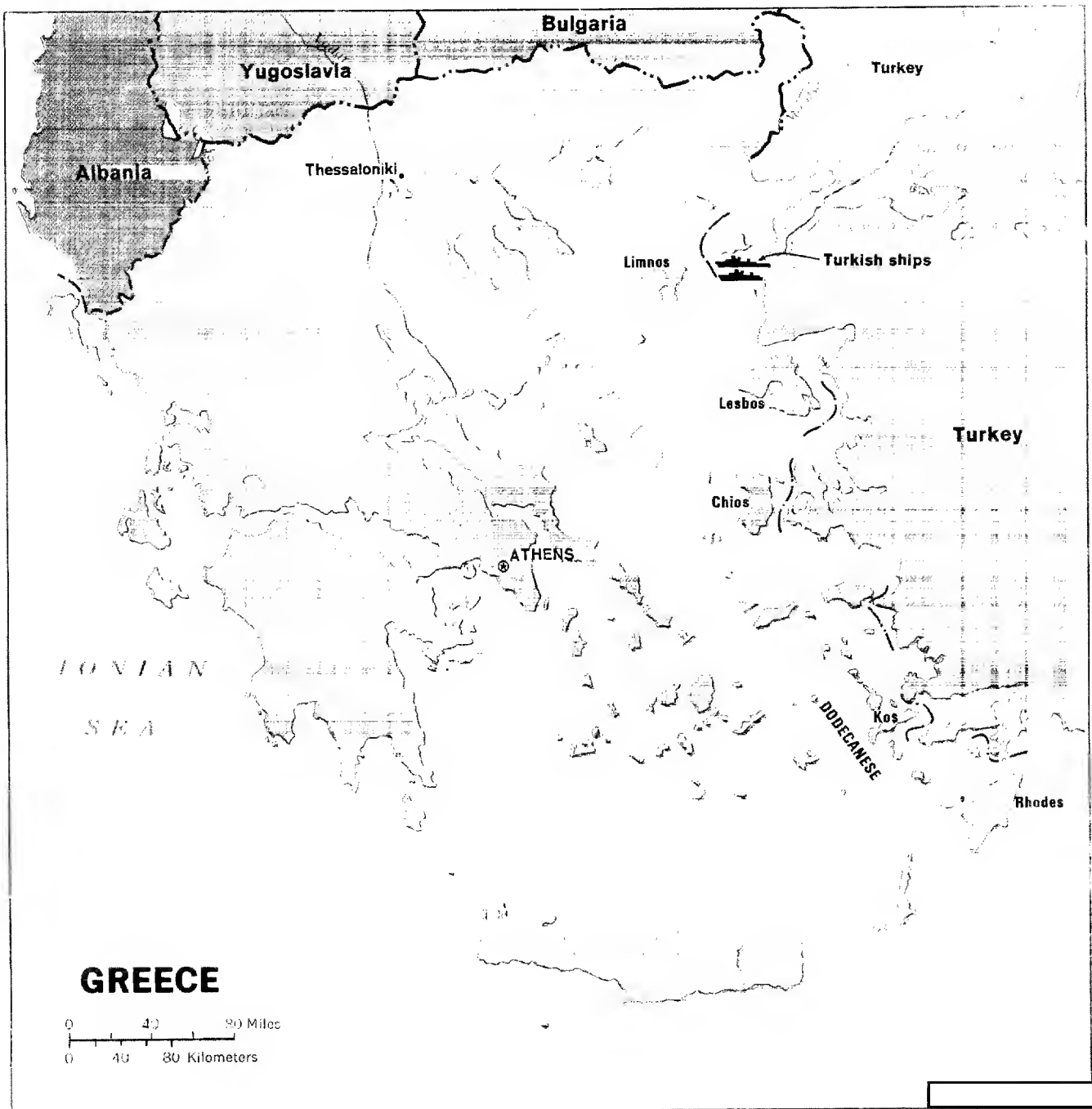
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TURKEY-GREECE

The arrival yesterday of a Turkish oil exploration ship escorted by warships in the eastern Aegean has increased the risk of a military confrontation with Athens. Some military elements in both countries have been on alert, and a miscalculation by either side could lead to a serious incident. Both governments, however, still want to resolve the dispute through negotiations, and Greek strongman Ioannidis has informed a US official that he intends to handle the problem through "non-military means."

A Greek foreign ministry official told US Ambassador Tasca that "two" exploration ships--probably converted minesweepers--have entered the disputed area. He may be including one of the escort ships as an oil research vessel because Ankara has stated that only one was being sent. The escort force consists of seven destroyers, two submarines, and two auxiliary ships. The official indicated that his government was taking a "very serious view" of the situation, but he assured the US ambassador that Greece would remain "cool-headed" about the matter.

Ioannidis, in comments to the US official on May 29, stated that the Greek government had learned of the decision to send the "seismological" ship to the Aegean five days before Ankara announced it was doing so. He indicated he was irked that an armed escort for the ship had been provided, but stated that this was no "grounds for a military reaction." Ioannidis said his government would take whatever action is necessary if the Turks prepare for "obvious armed conflict" or begin oil drilling in Greek waters.

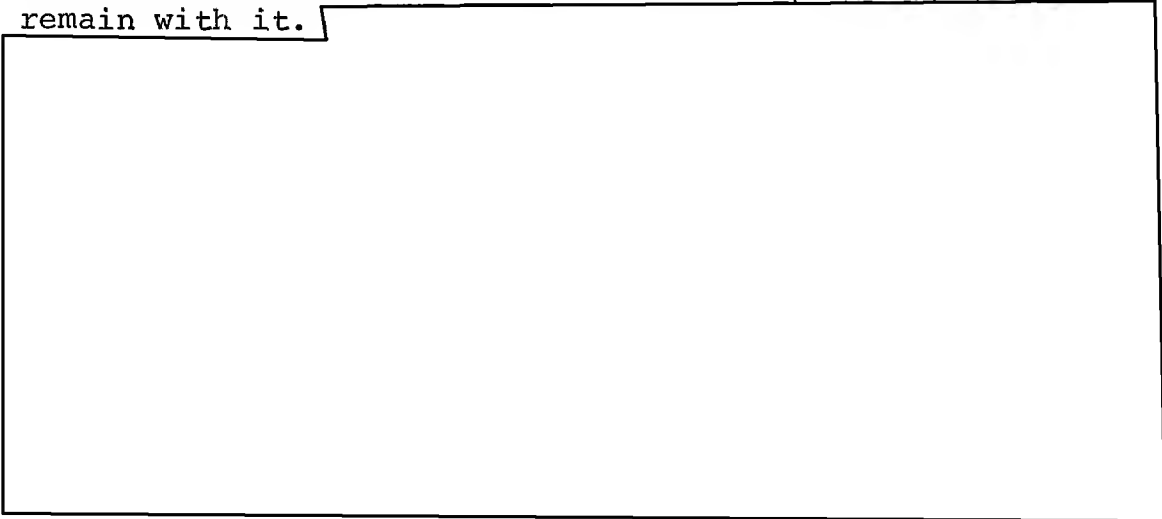
The US consul in Thessaloniki reports that forces in northern Greece have been placed on alert and that fighter aircraft have been moved to the area. He also reports that one amphibious landing ship was loading army troops in Thessaloniki yesterday.

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A high-level Turkish official yesterday told the US embassy that Ankara, by sending the exploration ship, had decided to "make it clear" to the Greeks that it intended to defend its interests in the disputed area. He said that the ship would probably be in the area for about a week and that some naval escort vessels probably would remain with it.



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SAUDI ARABIA

Minister of Petroleum Ahmed Zaki Yamani is confident that Saudi Arabia can prevent posted prices from being raised at the Quito meeting of OPEC on June 15 and that it can force down world oil prices this summer [REDACTED]

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Yamani proposes two schemes to achieve these aims. He implied that, if the other OPEC members push hard for increasing posted prices at Quito, Riyadh will threaten to withdraw from active participation in OPEC, increase production, and unilaterally cut its posted prices. Yamani claims that if other OPEC members are convinced that Saudi Arabia will carry out this threat, it will probably be effective.

The other part of the Saudi strategy would be to hold a major auction of Saudi crude oil this summer. Yamani believes that, if an offer of two million barrels per day were put on the market, there would be a sharp decline in world prices--probably to about \$8.00 per barrel. Saudi Arabia would obtain this auction oil by "substantially" increasing production and by taking a share of participation oil from ARAMCO.

The Minister of Petroleum is confident that he can achieve his oil price objectives, and he apparently has the support of both King Faysal and Prince Fahd. Faysal has been receptive to arguments that the damage done to the economies of Western and less developed countries by high oil prices is not to Saudi Arabia's long-term advantage. He also thinks Saudi pressure for lower prices will strengthen ties with the US, which he sees as essential to Saudi Arabia's security and economic development.

Some other senior Saudi officials, however, do not agree that price cuts are desirable and, in fact, want to cut production and conserve Saudi petroleum resources. They accept the position of some other OPEC members who argue that, because of world inflation, the real value of oil is actually declining. [REDACTED]

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PORTUGUESE GUINEA

The cease-fire talks between Lisbon and Portuguese Guinean insurgents that opened in London on May 25 are dragging on longer than the Portuguese had expected. The rebel delegation has adopted a tough bargaining position, apparently on the advice of the Algerians.

Portuguese Foreign Minister Soares, who is heading his government's delegation, returned to London on May 30 following consultations in Lisbon.

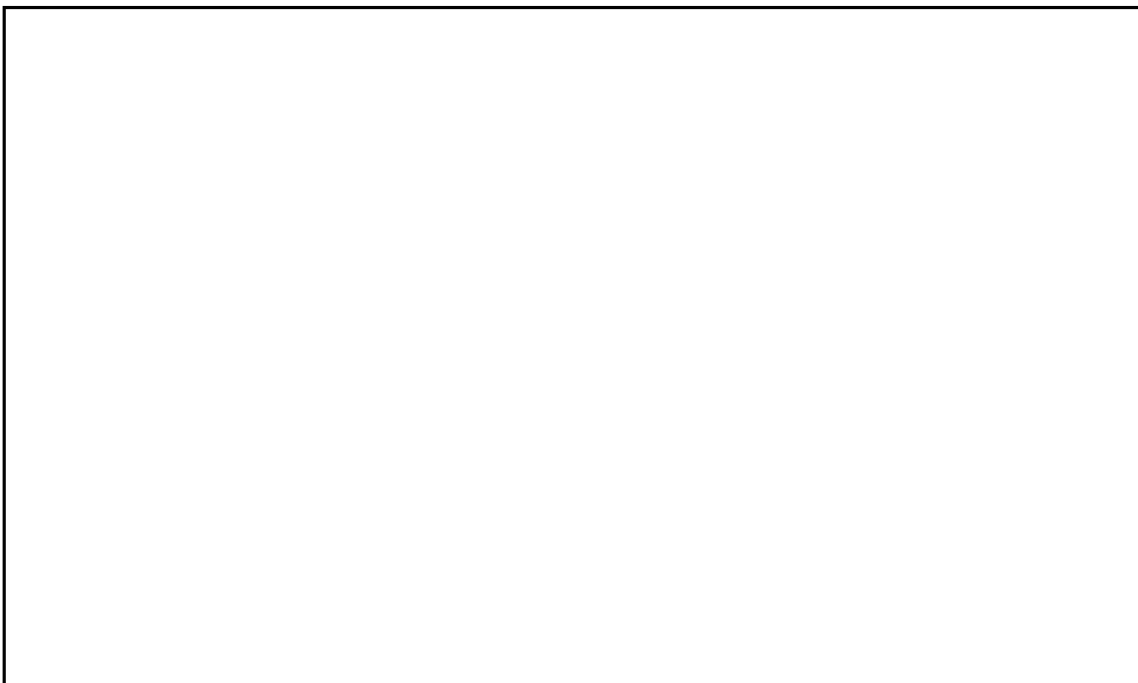
Lisbon has been trying to confine the talks to arrangements for a cease-fire. Soares told the US ambassador in Lisbon on May 29 that his government is "planning on" an "immediate" cease-fire in place and exclusion of the islands from the talks. The rebels, however, are apparently continuing to refuse to discuss any military matters prior to Portuguese recognition of the "Republic of Guinea-Bissau," which the rebels proclaimed last September. They are apparently also insisting that Lisbon discuss the Cape Verde Islands, which the rebels claim to represent, and recognize the right of Angola and Mozambique to independence.

The US Interests Section in Algeria believes the rebel delegation was encouraged by the Algerians to take a tough stand, even if the talks have to be broken off temporarily. The Algerians, who have long maintained close political relations with the rebels and have provided them with financial support, have emerged as close advisers to the insurgents in the current situation. Prior to arriving in London, the rebel delegation conferred in Algeria with President Boumediene, Foreign Minister Bouteflika, and the Algerian ambassador to the rebel regime.

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INTERNATIONAL WHEAT

The International Wheat Council's latest report concludes that current favorable production prospects for wheat portend a rise in wheat stocks next year. Stocks of the five major exporters--Argentina, Australia, Canada, the EC, and the US--are forecast to go up from a 27-year low of 20.4 million tons on July 1, 1974 to about 30 million tons next year.

World stocks of wheat, however, will be insufficient to cope with any major emergency requirements. This year's carry-over stocks could be somewhat higher than forecast because of shipping problems in Canada caused by freight car shortages, floods, and port congestion as well as China's refusal to take "contaminated" US wheat.

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SOUTH VIETNAM

In addition to its antiaircraft artillery assets, the North Vietnamese are using the SA-7 GRAIL surface-to-air missile to inhibit air operations with some measure of success. Communist tacticians are apparently using the GRAIL to force government aircraft to operate at greater altitudes, thereby reducing their effectiveness in a close air-support role for ground troops. Since the GRAIL missile was first employed by the Communists in 1972, they have steadily improved their fire-to-kill ratio. There are indications they now have a new, modified version of the missile.

Because the weapon is lightweight and easy to fire from the shoulder, its deployment and numbers in inventory are [redacted] The SA-7 can be moved to front-line units easily. There have been no indications that the Communists have had any logistic problems in receiving SA-7 missiles. The modified version of the SA-7 has a range of 12,500 to 13,000 feet and improved maneuverability. These improvements would make it a very effective weapon system, particularly against close air-support aircraft.

South Vietnamese air crews are familiar with effective countermeasures against the heat-seeking SA-7, such as expending flares, weaving, and banking into the missile's path. For the most part, they have been relatively successful in avoiding the missile. The critical factor for countermeasure success, however, is awareness of the launch in sufficient time to react.

Most recently, the SA-7 has been used with significant effect in Military Region 3. Of the 30 firing incidents noted this year, 24 have occurred in Military Region 3, resulting in the downing of some ten aircraft, including one of Saigon's high performance F-5s.

The close air-support operations by the South Vietnamese Air Force in MR 3 against Communist enclaves have restricted successful countermeasures since the lower

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operating altitudes do not provide sufficient warning time to react. Recent shootdowns there have driven Vietnamese pilots to higher altitudes, and ground commanders have consequently complained that they are not getting the effective support they need.

The South Vietnamese high command is aware of the increased risk to its aircraft conducting ground-support operations in this environment and must make the decision whether to shift to high-altitude interdiction bombing or sustain increased losses. Ground commanders are likely to continue to press for close air support rather than degrade one of their most effective tactical weapons against Communist ground troops.

South Vietnam: The Four-Party Joint Military Team (FPJMT) meetings in Saigon were suspended yesterday by the Provisional Revolutionary Government and North Vietnam. The FPJMT was primarily concerned with accounting for Americans still missing in action, and it was the last official forum still open for discussions between the government and Communist negotiators. South Vietnam had suspended bilateral meetings with the PRG in Paris in mid-April, and, in early May, the PRG countered by withdrawing from Saigon meetings of the Two-Party Joint Military Commission.

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PERU

The resignation yesterday of Vice Admiral Vargas as navy minister and member of the three-man Revolutionary Junta represents an unprecedented split in the six-year-old military regime. The resignation also indicates that President Velasco's control of the government remains decisive.

Vargas' resignation was triggered by statements he made to the press supporting limited freedom for the press and civilian opponents of the regime. Although Vargas has made similar statements supporting press freedom in the past, the President apparently felt that to allow further such declarations could no longer be tolerated, given the high premium placed on presenting a united front to the country. Velasco may also have forced Vargas into a corner in order to test his own political power, possibly with an eye toward ousting Prime Minister Mercado in the near future. In addition, Velasco's more radical advisers, who have long opposed Vargas, may have helped convince the President that irreparable harm to the revolutionary process would result if Vargas were not silenced. The likelihood of decisive government moves against Peru's already heavily controlled news media is now much greater.

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Vargas' resignation removes one of the leading moderate voices from the cabinet and almost certainly will cause further discord between so-called moderates and radicals.

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[redacted] Although Vargas' resignation may help to avert an immediate confrontation between the army and the navy, the underlying discord between moderates and radicals remains. The stage now appears to be set for a decisive resolution of the disagreements over the pace and scope of the revolution. This process is not likely to be a quiet affair.

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